

LAURENS MUNICIPAL LIGHT AND POWER PLANT

INDEPENDENT AUDITOR'S REPORTS

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

SCHEDULE OF FINDINGS

DECEMBER 31, 2006

## NEWS RELEASE

For Release --

The audit report of Laurens Municipal Light and Power Plant for the year ended December 31, 2006, has been released. This report was issued by Hunzelman, Putzier & Co., PLC, C.P.A.'s and filed with David A. Vaudt, Auditor of State.

A copy of the audit report is available for review in the office of the Auditor of State and the Utility's office.

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DECEMBER 31, 2006

LAURENS MUNICIPAL LIGHT AND POWER PLANT

LAURENS, IOWA

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LAURENS MUNICIPAL LIGHT AND POWER PLANT

LAURENS, IOWA

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Richard Main	Trustee	April, 2007
Brad Olsen	Trustee	April, 2009
Robert O. Braesch	Trustee	April, 2011

HUNZELMAN, PUTZIER & CO., PLC  
CERTIFIED PUBLIC ACCOUNTANTS

WESLEY E. STILLE, C.P.A.  
JEFFORY B. STARK, C.P.A.  
KEITH C. GERMANN, C.P.A.  
RICHARD R. MOORE, C.P.A.  
KENNETH A. PUTZIER, C.P.A. (RETIRED)  
W.J. HUNZELMAN, C.P.A. 1921-1997

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Laurens Municipal Light and Power Plant  
Laurens, Iowa

We have audited the accompanying balance sheets of Laurens Municipal Light and Power Plant, a component unit of City of Laurens, as of and for the years ended December 31, 2006 and 2005 and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Utility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Laurens Municipal Light and Power Plant as of December 31, 2006 and 2005, and the respective changes in its financial position and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 26, 2007 on our consideration of Laurens Municipal Light and Power Plant's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Management's Discussion and Analysis on pages 5 through 8 is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

*Hunzelman, Putzier & Co.*

April 26, 2007

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Laurens Municipal Light and Power Plant provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the year ended December 31, 2006. We encourage readers to consider this information in conjunction with the Utility's financial statements, which follow.

### FINANCIAL HIGHLIGHTS

- The Utility's operating revenues increased 13%, or \$231,867, from 2005 to 2006.
- The Utility's operating expenses were 3%, or \$77,106, less in 2006 than in 2005.
- The Utility's net assets decreased 5 %, or \$244,093, from December 31, 2005 to December 31, 2006.

### USING THIS ANNUAL REPORT

Laurens Municipal Light and Power Plant is a single Enterprise Fund and presents its financial statements using the economic resources measurement focus and accrual basis of accounting which is the same measurement focus and basis of accounting employed by private sector business enterprises. This discussion and analysis are intended to serve as an introduction to Laurens Municipal Light and Power Plant's financial statements. The annual report consists of a series of financial statements and other information, as follows:

- Management's Discussion and Analysis introduces the financial statements and provides an analytical overview of the Utility's financial activities.
- The Balance Sheets present information on the Utility's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Utility is improving or deteriorating.
- The Statements of Revenues, Expenses and Changes in Net Assets are the basic statement of activities for proprietary funds. This statement presents information on the Utility's operating revenues and expenses, non-operating revenues and expenses, and whether the Utility's financial position has improved or deteriorated as a result of the year's activities.
- The Statements of Cash Flows present the change in the Utility's cash and cash equivalents during the year. This information can assist the user of the report in determining how the Utility financed its activities and how it met its cash requirements.
- The Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

## FINANCIAL ANALYSIS OF THE UTILITY

### Statement of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of the Utility's financial position. The Utility's net assets for 2006 totaled approximately \$4,865,000. This compares to approximately \$5,110,000 for 2005. A summary of the Utility's net assets is presented below.

	<u>2006</u>	<u>2005</u>
Current assets	\$1,638,320	\$2,133,118
Other assets	1,515,548	1,459,378
Capital assets at cost, less accumulated depreciation	<u>3,842,657</u>	<u>4,032,331</u>
Total assets	<u>6,996,525</u>	<u>7,624,827</u>
Current liabilities	707,409	899,311
Non-current liabilities	<u>1,424,027</u>	<u>1,616,334</u>
Total liabilities	<u>2,131,436</u>	<u>2,515,645</u>
Net assets:		
Invested in capital assets, net of related debt	2,223,630	2,230,997
Restricted	396,195	396,071
Unrestricted	<u>2,245,264</u>	<u>2,482,114</u>
Total net assets	<u>\$4,865,089</u>	<u>\$5,109,182</u>

The largest portion of the Utility's net assets (46%) are unrestricted that can be used to meet the Utility's obligations as they come due. The invested in capital assets (46%, e.g., land, buildings, and equipment), less the related debt are resources allocated to capital assets. The restricted net assets (8%) represent resources that are subject to restrictions as required by the electric revenue bond resolution.

## FINANCIAL ANALYSIS OF THE UTILITY – (Continued)

### Statement of Revenues, Expenses and Changes in Net Assets

Operating revenues are received for the sale of electrical energy. Operating expenses are expenses paid to operate the Utility. Non-operating revenues and expenses are primarily for interest income and interest expense. The utilization of capital assets is reflected in the financial statements as depreciation, which allocates the cost of an asset over its expected useful life. A summary of revenues, expenses and changes in net assets for the year ended December 31, 2006, is presented below:

	<u>Changes in Net Assets</u>	
	<u>2006</u>	<u>2005</u>
Operating revenues:		
Sales of electrical energy	\$1,899,629	\$1,689,426
Other operating revenues	<u>179,543</u>	<u>157,879</u>
	<u>2,079,172</u>	<u>1,847,305</u>
Operating expenses:		
Cost of power	1,374,856	1,420,495
Depreciation and amortization	348,605	378,574
Administrative and general expense	208,164	208,467
Transmission expense	56,048	53,863
Distribution expenses - maintenance	60,235	50,839
Distribution expenses - operations	50,738	57,529
Taxes	29,133	38,162
Customers' accounts expense	<u>10,168</u>	<u>7,124</u>
Total operating expenses	<u>2,137,947</u>	<u>2,215,053</u>
Operating loss	(58,775)	(367,748)
Non-operating revenue and expense:		
Revenues from merchandising	33,932	22,401
Costs of merchandising	<u>25,128</u>	<u>16,658</u>
Gross profit	8,804	5,743
Interest earned on investments	118,260	105,790
Amortization of bond issue costs	(2,406)	(2,406)
Interest expense	(87,831)	(96,009)
Deferred patronage allocation	<u>6,356</u>	<u>9,832</u>
Non-operating income	<u>43,183</u>	<u>22,950</u>
Decrease in net assets	(15,592)	(344,798)
Net assets, beginning of year	5,109,182	5,530,039
Less: Residual equity transfer to City - funding	(201,500)	(50,000)
Residual equity transfer to City - donation	<u>(27,001)</u>	<u>(26,059)</u>
Net assets, end of year	<u>\$4,865,089</u>	<u>\$5,109,182</u>

The Statements of Revenues, Expenses and Changes in Net Assets reflects a negative year with a decrease in the net assets from 2005 to 2006.

The Utility's operating revenues increased 13%, or \$231,867, from 2005 to 2006 because the Utility raised rates 10% across the board late in the year and the amount of energy (Kwh) sold increased by 20%.

The Utility's operating expenses decreased 3%, or \$77,106, from 2005 to 2006 because the cost of power was down for the year.

## **FINANCIAL ANALYSIS OF THE UTILITY – (Continued)**

### **Statements of Cash Flows**

The Statements of Cash Flows presents information related to cash inflows and outflows, summarized by operating, non-capital financing, capital and related financing, and investing activities. Cash provided by operating activities includes charges for service reduced by payments to employees and to suppliers. Cash used from capital and related financing activities includes the purchase and construction of utility plant. Cash used by investing activities includes purchase and sale of certificates of deposits and interest income.

### **CAPITAL ASSETS**

At December 31, 2006, the Utility had approximately \$3,840,000 invested in capital assets, net of accumulated depreciation of approximately \$5,270,000. Depreciation charges totaled \$343,761 for 2006. More detailed information about the Utility's capital assets is presented in Note 3 to the financial statements.

### **LONG-TERM DEBT**

At December 31, 2006, the Utility had \$1,630,000 in debt outstanding, a decrease of \$185,000 from 2005. The table below summarizes outstanding debt by type.

	<u>2006</u>	<u>2005</u>
Electric revenue bonds	<u>\$1,630,000</u>	<u>\$1,815,000</u>

Additional information about the Utility's long-term debt is presented in Note 4 to the financial statements.

### **ECONOMIC FACTORS**

The current condition of the economy in the state continues to be a concern for Utility officials. Some of the realities that may potentially become challenges for the Utility to meet are:

- Facilities at the Utility require constant maintenance and upkeep.
- Technology continues to expand and current technology becomes outdated presenting an on going challenge to maintain up to date technology at a reasonable cost.
- The age of Neal 4 along with the on-going volatility of the power market can affect the Utility's cost of power.
- There is the potential of new legislation by the Federal and/or State legislature to establish Green Energy Requirements for all electric utilities.

### **CONTACTING THE UTILITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Utility's finances and to show the Utility's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Laurens Municipal Power and Communications Utility, 272 N. Third Street, Laurens, Iowa.

LAURENS MUNICIPAL LIGHT AND POWER PLANT  
BALANCE SHEETS  
DECEMBER 31, 2006 AND 2005

Exhibit A

	<u>ASSETS</u>	<u>2006</u>	<u>2005</u>
<u>CAPITAL ASSETS</u>			
Utility plant in service		\$9,051,077	\$8,820,229
Construction in progress		<u>62,325</u>	<u>170,818</u>
		9,113,402	8,991,047
Less accumulated depreciation		<u>5,270,745</u>	<u>4,958,716</u>
Total net capital assets		<u>3,842,657</u>	<u>4,032,331</u>
<u>OTHER ASSETS</u>			
Plant acquisition costs - net of amortization of \$87,191 in 2006 and \$82,347 in 2005		25,672	30,516
Notes receivable -- non-current portion		570,491	576,731
Common transmission system - capital improvement fund		168,960	204,193
Investments		300,000	200,000
Bond issuance costs - net of amortization of \$20,452 in 2006 and \$18,046 in 2005		19,048	21,454
Bond improvement fund		100,000	100,000
Bond reserve fund		273,500	273,500
Bond retirement sinking fund		22,695	22,571
Deferred patronage refund receivable		<u>35,182</u>	<u>30,413</u>
Total other assets		<u>1,515,548</u>	<u>1,459,378</u>
<u>CURRENT ASSETS</u>			
Cash and cash equivalents		69,608	-
Temporary cash investments		900,000	1,600,000
Accounts receivable (less provision for doubtful accounts of \$5,000 in 2006 and \$1,000 in 2005)		285,803	268,326
Notes receivable -- current portion		6,745	6,922
Joint use contract receivable		165,000	145,000
Inventories		137,902	56,387
Accrued interest receivable		46,466	48,823
Prepaid expenses		<u>26,796</u>	<u>4,577</u>
Total current assets		<u>1,638,320</u>	<u>2,130,035</u>
<u>DEFERRED DEBITS</u>			
		-	<u>3,083</u>
Total assets		<u>\$6,996,525</u>	<u>\$7,624,827</u>

(Continued)

LAURENS MUNICIPAL LIGHT AND POWER PLANT  
BALANCE SHEETS  
DECEMBER 31, 2006 AND 2005

Exhibit A  
(Continued)

LIABILITIES AND NET ASSETS

	<u>2006</u>	<u>2005</u>
<u>LONG-TERM DEBT, LESS CURRENT MATURITIES</u>		
Electric revenue bonds - net of unamortized discount of \$10,973 in 2006 and \$13,666 in 2005	<u>\$1,424,027</u>	<u>\$1,616,334</u>
<u>CURRENT AND ACCRUED LIABILITIES</u>		
Current maturities of revenue bonds	195,000	185,000
Outstanding checks in excess of bank balance	-	118,433
Due to communications utility	269,034	242,791
Accounts payable	162,990	270,647
Customer deposits	19,774	16,580
Other current and accrued liabilities	<u>60,611</u>	<u>65,860</u>
Total current and accrued liabilities	<u>707,409</u>	<u>899,311</u>
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	2,223,630	2,230,997
Restricted	396,195	396,071
Unrestricted - Designated	1,368,960	2,004,193
Unrestricted	<u>876,304</u>	<u>477,921</u>
Total net assets	<u>4,865,089</u>	<u>5,109,182</u>
Total liabilities and net assets	<u>\$6,996,525</u>	<u>\$7,624,827</u>

The accompanying notes are an integral part of this statement.

LAURENS MUNICIPAL LIGHT AND POWER PLANT  
STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

Exhibit B

	<u>2006</u>	<u>2005</u>
<u>OPERATING REVENUES</u>	<u>\$2,079,172</u>	<u>\$1,847,305</u>
<u>OPERATING EXPENSES</u>		
Cost of power	1,374,856	1,420,495
Depreciation and amortization	348,605	378,574
Administrative and general expense	208,164	208,467
Transmission expense	56,048	53,863
Distribution expenses - maintenance	60,235	50,839
Distribution expenses - operations	50,738	57,529
Taxes	29,133	38,162
Customers' accounts expense	<u>10,168</u>	<u>7,124</u>
Total operating expenses	<u>2,137,947</u>	<u>2,215,053</u>
Operating loss	(58,775)	(367,748)
<u>NON-OPERATING REVENUE AND EXPENSE</u>		
Revenues from merchandising	33,932	22,401
Costs of merchandising	<u>25,128</u>	<u>16,658</u>
Gross profit	8,804	5,743
Interest earned on investments	118,260	105,790
Amortization of bond issue costs	(2,406)	(2,406)
Interest expense	(87,831)	(96,009)
Deferred patronage allocations	<u>6,356</u>	<u>9,823</u>
Non-operating income	<u>43,183</u>	<u>22,950</u>
Change in net assets	(15,592)	(344,798)
Net assets, beginning of year	5,109,182	5,530,039
Less: Residual equity transfer to City - funding	(201,500)	(50,000)
Residual equity transfer to City - donation	<u>(27,001)</u>	<u>(26,059)</u>
Net assets, end of year	<u>\$ 4,865,089</u>	<u>\$5,109,182</u>

The accompanying notes are an integral part of this statement.

LAURENS MUNICIPAL LIGHT AND POWER PLANT  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

Exhibit C

	<u>2006</u>	<u>2005</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Cash received from customers	\$ 2,040,889	\$ 1,802,958
Cash paid to suppliers	(1,734,474)	(1,548,988)
Cash paid to employees for services	(199,101)	(204,315)
Net cash provided by operating activities	<u>107,314</u>	<u>49,655</u>
<u>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</u>		
Net borrowing of outstanding checks in excess of bank balance	-	118,433
Net repayment of outstanding checks in excess of bank balance	(118,433)	-
Advances from telecommunications utility	26,243	242,791
Payments to city	(228,501)	(76,059)
Net cash provided by (used in) non-capital financing activities	<u>(320,691)</u>	<u>285,165</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>		
Acquisition and construction of utility plant	(218,702)	(290,625)
Principal paid on bonds	(185,000)	(175,000)
Interest paid on bonds	(85,847)	(93,722)
Net cash used in capital and related financing activities	<u>(489,549)</u>	<u>(559,347)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Investments matured or sold	2,141,283	2,231,682
Purchase of investments	(1,506,050)	(1,801,946)
Collections on notes receivable	6,417	6,104
Issuance of notes receivable	-	(400,000)
Sale of resale merchandise	33,932	22,401
Purchase of resale merchandise	(25,128)	(16,658)
Interest received	120,617	83,738
Patronage dividends received	1,587	1,715
Purchase of restricted cash	(124)	(177)
Net cash provided by investing activities	<u>772,534</u>	<u>126,859</u>
<u>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u>	<u>69,608</u>	<u>(97,668)</u>
Cash and cash equivalents at beginning of year	<u>-</u>	<u>97,668</u>
<u>CASH AND CASH EQUIVALENTS AT END OF YEAR</u>	<u>\$ 69,608</u>	<u>\$ -</u>

(Continued)

LAURENS MUNICIPAL LIGHT AND POWER PLANT  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

Exhibit C  
(Continued)

	<u>2006</u>	<u>2005</u>
<u>RECONCILIATION OF OPERATING LOSS TO CASH</u>		
<u>PROVIDED BY OPERATING ACTIVITIES:</u>		
Operating loss	\$ (58,775)	\$ (367,748)
Adjustments to reconcile net income to cash provided by operations:		
Depreciation and amortization	348,605	378,574
Provisions for bad debts	4,000	704
Changes in assets and liabilities:		
(Increase) in accounts receivable	(41,477)	(56,263)
(Increase) decrease in inventory	(81,515)	11,912
Decrease (increase) in prepaid expenses	(22,219)	23,963
Decrease in deferred debits	3,083	3,084
Increase (decrease) in accounts payable	(43,042)	47,873
Increase (decrease) in other liabilities	<u>(1,346)</u>	<u>7,556</u>
Total adjustments	<u>166,089</u>	<u>417,403</u>
Net cash provided by operating activities	<u>\$ 107,314</u>	<u>\$ 49,655</u>

The accompanying notes are an integral part of this statement.

LAURENS MUNICIPAL LIGHT AND POWER PLANT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Laurens Municipal Light and Power Plant is a component unit of City of Laurens. The Mayor appoints the trustees of the Utility subject to approval by the City Council. The City Council also approves the Utility's operating budget.

Laurens Municipal Light and Power Plant generates and distributes electric energy to consumers in Laurens, Iowa. Sales of electricity are billed on the twenty-fifth of each month for usage through the fifteenth of the month. As has been done in prior years, an unbilled receivable in the amount of \$80,477 has been recorded (\$74,850 at December 31, 2005) for the period December 15 through December 31. Laurens Municipal Light and Power Plant is billed by their suppliers on a calendar month basis.

The Utility's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standard Board.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Reporting Entity

For financial reporting purposes, Laurens Municipal Light and Power Plant has included all funds, organizations, agencies, boards, commissions, and authorities. The Utility has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Utility are such that exclusion would cause the Utility's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Utility to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the Utility. Laurens Municipal Light and Power Plant has no component units which meet the Governmental Accounting Standards Board criteria.

Basis of Presentation

The accounts of Laurens Municipal Light and Power Plant are organized as an Enterprise Fund. Enterprise Funds are used to account for operations (a) financed and operated in a manner similar to private business enterprises, where the intent of the governing body is the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Measurement Focus and Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

LAURENS MUNICIPAL LIGHT AND POWER PLANT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Measurement Focus and Basis of Accounting - (Continued)

The Utility applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

The Utility distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Utility's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Cash, Investments, and Cash Equivalents - Investments are carried at cost which approximates market value. For the purpose of reporting cash flows, cash and cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Inventories - Inventories are stated at the lower of cost or replacement value. Cost is determined on a weighted average method.

Utility Plant - Utility plant is stated at cost. Cost of labor, materials, supervision, and other costs incurred making improvements and replacements to the system, except minor replacements, are charged to the plant accounts while such costs incurred in making normal repairs, minor replacements, and maintaining the assets in efficient operating condition are charged to expense.

Provisions for depreciation of generating, transmission, and distribution plant are computed on a straight-line basis employing a group method. The original costs of assets retired (not constituting the sale of an operating unit or system) together with the costs of removal less salvage are charged to the related accumulated depreciation accounts. In accounting for the sale of operating units or systems, gains or losses are reflected in net revenue.

Provisions for depreciation of general plant are computed on a straight-line basis employing the unit depreciation method. The original cost of property retired is removed from the general plant accounts and the related accumulated depreciation accounts are charged for the depreciation taken to date. Gain or loss is recognized to the extent that the salvage value of the assets retired exceeds or falls short of the remaining book value of the assets retired.

Amortization - The cost of acquiring a portion of the common transmission system is being amortized over the remaining useful life of the assets.

Legal fees and other expenses associated with the issuance of the electric revenue notes are being amortized on the straight-line method over the term of the bonds. Amortization charged to expense in 2006 and 2005 was \$2,406.

Compensated Absences - Utility employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death, or retirement. The Utility's liability for accumulated vacation has been computed based on rates of pay in effect at December 31, 2006.

Budgets and Budgetary Accounting - The Board of Trustees annually adopts a budget on the accrual basis following required public notice and hearing in accordance with the Code of Iowa. The budget may be amended during the year utilizing similar statutorily prescribed procedures.

LAURENS MUNICIPAL LIGHT AND POWER PLANT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The following is a comparison of revenues, expenses, and changes in net assets - actual to budget:

	<u>Actual</u>	<u>Budgeted Amounts</u>		<u>Final to Actual Variance</u>
		<u>Original</u>	<u>Final</u>	
Revenues:				
Use of money and property	\$ 118,260	\$ 105,000	\$ 121,000	\$ (2,740)
Charges for services	1,914,172	1,800,000	1,860,000	54,172
Miscellaneous	205,288	195,000	214,000	(8,712)
	<u>2,237,720</u>	<u>2,100,000</u>	<u>2,195,000</u>	<u>42,720</u>
Expenses	<u>2,253,312</u>	<u>2,250,000</u>	<u>2,325,000</u>	<u>71,688</u>
Net	(15,592)	(150,000)	(130,000)	114,408
Net assets, beginning of year	5,109,182	5,291,039	5,291,039	(181,857)
Residual equity transfer to City - funding	(201,500)	(50,000)	(50,000)	(151,500)
Residual equity transfer to City - donation	<u>(27,001)</u>	<u>-</u>	<u>-</u>	<u>(27,001)</u>
Net assets, end of year	<u>\$4,865,089</u>	<u>\$5,091,039</u>	<u>\$5,111,039</u>	<u>\$ (245,950)</u>

2. DEPOSITS

The Utility's deposits in banks at December 31, 2006, were entirely covered by Federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utility is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

In addition, the Utility had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$102,957 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest rate risk - The Utility's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Utility.

The Utility had no investments meeting the disclosure requirements of Governmental Auditing Standards Board Statement Number 3, as amended by Statement 40.

LAURENS MUNICIPAL LIGHT AND POWER PLANT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005

3. PLANT AND DEPRECIATION PROCEDURES

Listed below are the major classes of plant as of December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Land and land rights	\$ 77,283	\$ 75,659
Generating plant	2,460,595	2,433,210
Transmission plant	1,057,531	981,594
Transmission plant - Corn Belt	1,109,979	1,004,604
Distribution plant	1,750,348	1,747,151
Communication plant	2,310,920	2,304,152
Other equipment	<u>284,421</u>	<u>273,859</u>
Plant in service	<u>\$9,051,077</u>	<u>\$8,820,229</u>

Provision for depreciation and amortization has been computed at straight-line rates over the estimated useful lives of the property.

4. ELECTRIC REVENUE BONDS

Annual debt service requirements to maturity for revenue bonds are as follows:

<u>Year Ending</u> <u>December 31,</u>	<u>Revenue Bonds</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
2007	\$ 195,000	\$ 77,338	\$ 272,338
2008	205,000	68,367	273,367
2009	205,000	58,938	263,938
2010	205,000	49,302	254,302
2011	205,000	39,668	244,668
2012	205,000	29,827	234,827
2013	205,000	19,988	224,988
2014	<u>205,000</u>	<u>9,994</u>	<u>214,994</u>
	1,630,000	353,422	1,983,422
Less: Current maturities	(195,000)	-	(195,000)
Unamortized discount	<u>(10,973)</u>	-	<u>(10,973)</u>
	<u>\$ 1,424,027</u>	<u>\$ 353,422</u>	<u>\$1,777,449</u>

The resolutions providing for the issuance of revenue bonds include the following provisions:

- A. The bonds will only be redeemed from the future earnings of the enterprise activity and the bondholders hold a lien on the future earnings of the funds.
- B. Sufficient monthly transfers shall be made to electric revenue sinking account for the purpose of making the bond principal and interest payments when due.
- C. The Utility is to establish a separate Bond Reserve Account into which there shall be set apart and paid at the time of delivery of the obligations the sum of \$273,500.
- D. Additional monthly transfers of \$2,000 to the Bond Improvement Fund shall be made until the sum of \$100,000 has been accumulated. This account is restricted for the purpose of paying for necessary repairs, improvements, and extension to the system

LAURENS MUNICIPAL LIGHT AND POWER PLANT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005

5. RESTRICTED AND DESIGNATED NET ASSETS

Net assets have been restricted and designated in amounts necessary to fund the following specific reserves:

	<u>2006</u>	<u>2005</u>
Restricted:		
Bond retirement sinking fund	\$ 22,695	\$ 22,571
Bond reserve fund	273,500	273,500
Bond improvement fund	<u>100,000</u>	<u>100,000</u>
	<u>\$ 396,195</u>	<u>\$ 396,071</u>
Unrestricted:		
Designated:		
Distribution replacement reserve	\$ 200,000	\$ 500,000
Contingency, depreciation, and extension	400,000	400,000
Generation reserve fund	600,000	700,000
Communication distribution replacement reserve	-	200,000
Common transmission system - capital improvement fund	<u>168,960</u>	<u>204,193</u>
	<u>1,368,960</u>	<u>2,004,193</u>
Undesignated	<u>876,304</u>	<u>477,921</u>
	<u>\$2,245,264</u>	<u>\$2,482,114</u>

6. NOTE RECEIVABLE

On January 1, 2004, the Utility received a note for \$194,025 in exchange for the construction of a 69/12.5 KV substation for the City of Marathon. The note requires monthly payments of \$1,288 including interest of 5.00% through February 2024. On March 24, 2005 the Utility loaned \$400,000 to Laurens Industrial Foundation, Inc. to be used for economic development within the city. The terms of the note are interest only for the first five years with the principal balance due March 24, 2010.

7. COMMON TRANSMISSION SYSTEM – CAPITAL IMPROVEMENT FUND

This account is currently used to record funds deposited with NIMECA to be used for future construction and/or maintenance of the common transmission.

8. PENSION AND RETIREMENT BENEFITS

The Utility contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the Utility is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Utility's contribution to IPERS for the years ending December 31, 2006, 2005, and 2004, were \$10,015, \$10,135, and \$8,970, respectively, equal to the required contributions for each year.

LAURENS MUNICIPAL LIGHT AND POWER PLANT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005

9. RISK MANAGEMENT

Laurens Municipal Light and Power Plant is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Utility assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

10. SIGNIFICANT AREA CONCENTRATION OF CREDIT RISK

The Utility extends credit to its customers on terms no more favorable than standard terms of the industry it serves. A substantial portion of the Utility's customers are located in Laurens, Iowa. The Utility's credit risks have been anticipated and management believes that adequate provision has been made for doubtful accounts.

11. RELATED PARTY TRANSACTION

Pursuant to Iowa Code Chapter 28E.18 concerning the joint use of facilities through sharing agreements, the Laurens Municipal Light and Power Plant and the Laurens Municipal Broadband Communications Utility have entered into an agreement whereby the Communications Utility shall pay the Electric Utility the sum of \$173,000 on or before the first day of June each year for the use of a portion of the Communications distribution system for the previous calendar year. The term of this agreement is forty years and the payments are due June 1, of each year.

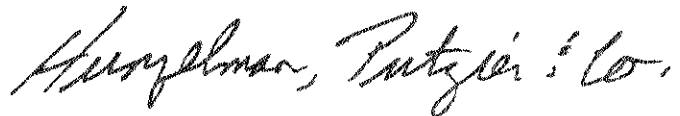
HUNZELMAN, PUTZIER & CO., PLC  
CERTIFIED PUBLIC ACCOUNTANTS

WESLEY E. STILLE, C.P.A.  
JEFFORY B. STARK, C.P.A.  
KEITH C. GERMANN, C.P.A.  
RICHARD R. MOORE, C.P.A.  
KENNETH A. PUTZIER, C.P.A. (RETIRED)  
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Board of Trustees  
Laurens Municipal Light and Power Plant  
Laurens, Iowa

The primary purpose of our examination was to formulate an opinion on the financial statements taken as a whole. The additional information presented in the following pages was prepared on the basis of audit procedures applied in our examination of the financial statements. This information, while not considered necessary for fair presentation of the financial statements is, in our opinion, fairly stated in all material respects when considered in relation to the financial statements taken as a whole.



April 26, 2007

LAURENS MUNICIPAL LIGHT AND POWER PLANT  
STATEMENTS OF OPERATIONS  
YEARS ENDED DECEMBER 31, 2006 AND 2005

	<u>Electric</u>	<u>Electric Communications</u>	<u>Total</u>	<u>2005 Total</u>
<u>OPERATING REVENUES</u>				
Sales of electrical energy:				
Residential	\$ 576,587	\$ -	\$ 576,587	\$ 502,754
Commercial	811,545	-	811,545	667,725
Resale	414,560	-	414,560	411,828
Marathon	96,937	-	96,937	107,119
Forfeited discounts	3,574	-	3,574	3,072
Sales of steam	10,969	-	10,969	9,053
Miscellaneous	-	-	-	754
Joint use agreement	-	165,000	165,000	145,000
Total operating revenue	<u>1,914,172</u>	<u>165,000</u>	<u>2,079,172</u>	<u>1,847,305</u>
<u>OPERATING EXPENSES</u>				
Purchased energy	<u>1,014,615</u>	<u>-</u>	<u>1,014,615</u>	<u>1,047,662</u>
Generating plant - local:				
Operating supervision and labor	23,029	-	23,029	24,353
Fuel	5,861	-	5,861	1,459
Operating supplies	888	-	888	377
Maintenance and repairs	1,300	-	1,300	-
Buildings and grounds				
maintenance and repairs	7,504	-	7,504	11,963
Depreciation	<u>3,930</u>	<u>-</u>	<u>3,930</u>	<u>3,930</u>
Total local generating plant expenses	<u>42,512</u>	<u>-</u>	<u>42,512</u>	<u>42,082</u>
Generating plant - Neal 4:				
Fuel	192,350	-	192,350	176,046
Maintenance and repairs	53,458	-	53,458	105,015
Operating	56,108	-	56,108	49,011
Property taxes	18,711	-	18,711	26,890
Depreciation	62,476	-	62,476	66,712
Other	<u>19,743</u>	<u>-</u>	<u>19,743</u>	<u>4,609</u>
Total Neal 4 generating plant expenses	<u>402,846</u>	<u>-</u>	<u>402,846</u>	<u>428,283</u>
Distribution system - electric:				
Line and station supervision and labor	11,509	-	11,509	13,830
Line and station supplies and expense	293	-	293	4,109
Street lighting and signals				
labor and expense	261	-	261	-
Customers' installation expense	10,170	-	10,170	12,895
Miscellaneous distribution expense	2,171	-	2,171	4,711
Maintenance of lines	27,894	-	27,894	21,176
Maintenance of line transformers	4,976	-	4,976	6,446
Maintenance of street lighting				
and signal systems	3,088	-	3,088	4,195
Maintenance of meters	7,993	-	7,993	3,445
Depreciation	<u>50,353</u>	<u>-</u>	<u>50,353</u>	<u>50,311</u>
Total electric distribution expense	<u>118,708</u>	<u>-</u>	<u>118,708</u>	<u>121,118</u>

(Continued)

LAURENS MUNICIPAL LIGHT AND POWER PLANT  
STATEMENTS OF OPERATIONS  
YEARS ENDED DECEMBER 31, 2006 AND 2005

	<u>Electric</u>	<u>Electric Communications</u>	<u>Total</u>	<u>2005 Total</u>
<u>OPERATING EXPENSES - (Continued)</u>				
Distribution system - communications:				
Line and station supervision labor	\$ -	\$ 544	\$ 544	\$ 2,852
Operating supplies and expense	-	3,731	3,731	3,029
Customers' installation expense	-	22,059	22,059	16,103
Line maintenance	-	3,499	3,499	2,605
Nodes, amps, and peds maintenance	-	11,147	11,147	10,488
Voice port maintenance	-	1,638	1,638	2,484
Property taxes	-	10,422	10,422	11,272
Depreciation expense	-	163,076	163,076	191,093
Total communications distribution expense	-	216,116	216,116	239,926
Transmission system:				
Amortization	4,844	-	4,844	4,844
Depreciation	55,724	-	55,724	53,496
Capacity assignment costs	25,380	-	25,380	25,103
Other	30,668	-	30,668	28,760
Total transmission system expenses	116,616	-	116,616	112,203
Customers' accounts expense:				
Bad debt expense	3,898	-	3,898	328
Meter reading labor	6,270	-	6,270	6,796
Total customer accounts expense	10,168	-	10,168	7,124
Administrative and general expense:				
Administrative and general salaries	66,832	-	66,832	61,815
Conservation expense	4,009	-	4,009	9,209
Office supplies and postage	9,270	-	9,270	10,666
Audits, legal, and consultation services	15,591	-	15,591	11,213
Property insurance	10,115	-	10,115	10,078
Compensation insurance	4,796	-	4,796	4,075
Employees' group insurance	23,864	-	23,864	27,619
Trustees' fees	900	-	900	900
Dues and subscriptions	5,720	-	5,720	6,781
Franchise requirements - cash payments to City of Laurens	30,000	-	30,000	30,054
Franchise requirement - cost of services to City of Laurens	6,557	-	6,557	8,535
Legal publications	1,902	-	1,902	1,710
Advertising and promotion	1,806	-	1,806	2,615
Convention, meeting, and travel expense	4,071	-	4,071	1,675
Depreciation	8,202	-	8,202	8,188
Bank service charges	99	-	99	388
Motor vehicle and work equipment expense	19,187	-	19,187	18,055
Miscellaneous	3,445	-	3,445	3,079
Total administrative and general expense	216,366	-	216,366	216,655
Total operating expense	1,921,831	216,116	2,137,947	2,215,053
Loss from operations	(7,659)	(51,116)	(58,775)	(367,748)

(Continued)

LAURENS MUNICIPAL LIGHT AND POWER PLANT  
STATEMENTS OF OPERATIONS  
YEARS ENDED DECEMBER 31, 2006 AND 2005

	<u>Electric</u>	<u>Electric Communications</u>	<u>Total</u>	<u>2005 Total</u>
<u>NON-OPERATING REVENUE AND</u>				
<u>EXPENSE</u>				
Revenues from merchandising			\$ 33,932	\$ 22,401
Costs of merchandising			<u>25,128</u>	<u>16,658</u>
Gross profit			8,804	5,743
Interest earned on investments			118,260	105,790
Amortization of bond issue costs			(2,406)	(2,406)
Interest expense			(87,831)	(96,009)
Deferred patronage allocations			<u>6,356</u>	<u>9,832</u>
Non-operating income			<u>43,183</u>	<u>22,950</u>
Net Loss			\$ <u>(15,592)</u>	\$ <u>(344,798)</u>

LAURENS MUNICIPAL LIGHT AND POWER PLANT  
SCHEDULE OF MUNICIPAL PLANT  
DECEMBER 31, 2006

Schedule 1

	Utility Plant				Depreciation Rate	Accumulated Depreciation				
	Balance January 1, 2006	Additions	Transfers	Deletions		Balance January 1, 2006	Expense	Transfers	Retirements	Balance December 31, 2006
<b>ELECTRIC PLANT</b>										
<u>Generating Plant - Local</u>										
Land and land rights	\$ 6,000	\$ -	\$ -	\$ -	0.00%	\$ -	\$ -	\$ -	\$ -	\$ -
Structures and improvements	93,899	-	-	-	3.25	78,433	3,052	-	-	81,485
Fuel holders, producers and accessories	29,273	-	-	-	3.00	12,889	878	-	-	13,767
Generators	305,326	-	-	-	3.00	305,326	-	-	-	305,326
Accessory equipment	76,083	-	-	-	3.00	76,083	-	-	-	76,083
	<u>510,581</u>	<u>-</u>	<u>-</u>	<u>-</u>		<u>472,731</u>	<u>3,930</u>	<u>-</u>	<u>-</u>	<u>476,661</u>
<u>Generating Plant - Neal 4</u>										
Land and land rights	3,124	-	-	77	0.00	-	-	-	-	-
Structures and improvements	254,732	13,517	-	1,932	3.25	215,208	8,467	-	1,932	221,743
Boiler plant equipment	1,167,394	27,266	-	10,723	3.25	899,500	38,209	-	10,723	926,986
Generators	276,030	-	-	10	3.00	195,347	8,281	-	10	203,618
Accessory equipment	201,101	198	-	-	3.00	151,959	6,036	-	-	157,995
Miscellaneous power plant equipment	16,575	-	-	-	3.25	12,531	539	-	-	13,070
Other equipment	12,797	13	-	944	3.25	-	944	-	944	-
	<u>1,931,753</u>	<u>40,994</u>	<u>-</u>	<u>13,686</u>		<u>1,474,545</u>	<u>62,476</u>	<u>-</u>	<u>13,609</u>	<u>1,523,412</u>
<u>Transmission Plant - Local</u>										
Land and land rights	2,759	-	-	-	0.00	-	-	-	-	-
Station equipment	828,486	71,787	-	-	2.60	335,882	22,474	-	-	358,356
	<u>831,245</u>	<u>71,787</u>	<u>-</u>	<u>-</u>		<u>335,882</u>	<u>22,474</u>	<u>-</u>	<u>-</u>	<u>358,356</u>
<u>Transmission Plant - Other</u>										
Land and land rights	5,634	-	-	-	0.00	-	-	-	-	-
Structures and improvements	3,938	-	-	-	3.25	2,862	128	-	-	2,990
Station equipment	75,066	1,971	-	1,089	2.60	36,608	1,963	-	1,089	37,482
Towers and fixtures	57,813	3,585	-	513	2.75	39,339	1,632	-	513	40,458
Conductors and devices	16,291	196	-	-	2.75	11,086	451	-	-	11,537
	<u>158,742</u>	<u>5,752</u>	<u>-</u>	<u>1,602</u>		<u>89,895</u>	<u>4,174</u>	<u>-</u>	<u>1,602</u>	<u>92,467</u>
<u>Transmission Plant - Corn Belt</u>										
Land and land rights	57,087	1,701	-	-	0.00	-	-	-	-	-
Structures and improvements	801,239	120,421	-	15,046	2.75	365,770	24,145	-	20,250	369,665
Original local line	39,008	-	-	-	2.75	38,597	411	-	-	39,008
West sub tie line	122,816	-	-	-	2.75	97,187	3,378	-	-	100,565
Marathon substation	41,541	-	-	-	2.75	1,713	1,142	-	-	2,855
	<u>1,061,691</u>	<u>122,122</u>	<u>-</u>	<u>15,046</u>		<u>503,267</u>	<u>29,076</u>	<u>-</u>	<u>20,250</u>	<u>512,093</u>

(Continued)

LAURENS MUNICIPAL LIGHT AND POWER PLANT  
SCHEDULE OF MUNICIPAL PLANT  
DECEMBER 31, 2006

Schedule 1  
(Continued)

	Utility Plant						Accumulated Depreciation				
	Balance January 1, 2006	Additions	Transfers	Deletions	Balance December 31, 2006	Depreciation Rate	Balance January 1, 2006	Expense	Transfers	Retirements	Balance December 31, 2006
<u>ELECTRIC PLANT - (Continued)</u>											
<u>Distribution System</u>											
Land and land rights	\$ 1,055	\$ -	\$ -	\$ -	\$ 1,055	0.00%	\$ -	\$ -	\$ -	\$ -	\$ -
Structures and improvements	11,525	-	-	-	11,525	2.50	9,539	288	-	-	9,827
Station equipment	37,085	-	-	-	37,085	2.90	37,085	-	-	-	37,085
Poles, towers and equipment	6,843	-	-	-	6,843	3.25	6,300	222	-	-	6,522
Overhead conductors and devices	-	-	-	-	-	2.50	-	-	-	-	-
Underground conduits	2,395	-	-	-	2,395	2.60	2,238	62	-	-	2,300
Underground conductors and devices	6,888	-	-	-	6,888	2.60	5,588	179	-	-	5,767
Line transformers	422,861	-	-	-	422,861	2.80	149,333	11,840	-	-	161,173
Services	15,314	-	-	-	15,314	3.30	12,974	505	-	-	13,479
Meters	101,263	3,197	-	-	104,460	3.10	58,221	3,189	-	-	61,410
Installation on customers premises	2,674	-	-	-	2,674	4.00	1,921	107	-	-	2,028
Street lighting and signal system	85,610	-	-	-	85,610	4.00	80,124	3,424	-	-	83,548
Underground primary systems	693,311	-	-	-	693,311	2.90	106,263	20,106	-	-	126,369
Underground secondary systems	156,035	-	-	-	156,035	2.90	105,554	4,525	-	-	110,079
Underground customer service	203,646	-	-	-	203,646	2.90	137,369	5,906	-	-	143,275
Fire siren	212	-	-	-	212	4.00	212	-	-	-	212
Special services for customers	1,489	-	-	-	1,489	4.00	1,489	-	-	-	1,489
	<u>1,748,206</u>	<u>3,197</u>	<u>-</u>	<u>-</u>	<u>1,751,403</u>		<u>714,210</u>	<u>50,353</u>	<u>-</u>	<u>-</u>	<u>764,563</u>
<u>Other Equipment</u>											
Structures and improvements	45,378	9,630	-	-	55,008	2.5-5.0	11,051	1,851	-	-	12,902
Office furniture and fixtures	29,409	932	-	-	30,341	6.7-20.0	23,595	1,544	-	-	25,139
Transportation equipment	29,360	-	-	-	29,360	10.0-14.3	29,360	-	-	-	29,360
Stores equipment	497	-	-	-	497	0.00	497	-	-	-	497
Shop equipment	17,944	-	-	-	17,944	3.3-20.0	17,330	74	-	-	17,404
Laboratory equipment	16,238	-	-	-	16,238	5.0-10.0	13,643	516	-	-	14,159
Work equipment	112,151	-	-	-	112,151	5.0-20.0	74,651	2,978	-	-	77,629
Communication equipment	21,593	-	-	-	21,593	5.0-10.0	18,987	1,239	-	-	20,226
Miscellaneous equipment	1,289	-	-	-	1,289	13.0	1,289	-	-	-	1,289
	<u>273,859</u>	<u>10,562</u>	<u>-</u>	<u>-</u>	<u>284,421</u>		<u>190,403</u>	<u>8,202</u>	<u>-</u>	<u>-</u>	<u>198,605</u>
<u>Communication Distribution System</u>											
Conduit	64,486	-	-	-	64,486	5.00	21,644	3,224	-	-	24,868
Fiber and cable	806,027	-	-	-	806,027	5.00	223,736	40,301	-	-	264,037
Power supplies	292,933	-	-	-	292,933	14.29	285,239	7,694	-	-	292,933
Nodes	109,170	-	-	-	109,170	10.00	66,769	10,917	-	-	77,686
Amps	239,958	-	-	-	239,958	10.00	162,279	23,996	-	-	186,275
Pedestals	70,160	-	-	-	70,160	10.00	48,721	7,016	-	-	55,737
Voice ports	614,096	6,768	-	-	620,864	10.00-20.00	318,656	62,086	-	-	380,742
System passives	49,512	-	-	-	49,512	10.00	34,347	4,951	-	-	39,298
Head end building	57,810	-	-	-	57,810	5.00	20,126	2,891	-	-	23,017
	<u>2,304,152</u>	<u>6,768</u>	<u>-</u>	<u>-</u>	<u>2,310,920</u>		<u>1,181,517</u>	<u>163,076</u>	<u>-</u>	<u>-</u>	<u>1,344,593</u>

(Continued)

LAURENS MUNICIPAL LIGHT AND POWER PLANT  
SCHEDULE OF MUNICIPAL PLANT  
DECEMBER 31, 2006

Schedule 1  
(Continued)

	Utility Plant				Depreciation Rate	Accumulated Depreciation				
	Balance January 1, 2006	Additions	Transfers	Deletions		Balance January 1, 2006	Expense	Transfers	Retirements	Balance December 31, 2006
<u>ELECTRIC PLANT (Continued)</u>										
Total electric plant in service	<u>\$8,820,229</u>	<u>\$ 261,182</u>	<u>\$ -</u>	<u>\$ 30,334</u>		<u>\$4,962,450</u>	<u>\$ 343,761</u>	<u>\$ -</u>	<u>\$ 35,461</u>	<u>\$5,270,750</u>
Construction in progress	<u>170,818</u>	<u>(108,493)</u>	<u>-</u>	<u>-</u>		<u>(3,734)</u>	<u>-</u>	<u>-</u>	<u>(3,729)</u>	<u>(5)</u>
Total utility plant	<u>\$8,991,047</u>	<u>\$ 152,689</u>	<u>\$ -</u>	<u>\$ 30,334</u>		<u>\$4,958,716</u>	<u>\$ 343,761</u>	<u>\$ -</u>	<u>\$ 31,732</u>	<u>\$5,270,745</u>

LAURENS MUNICIPAL LIGHT AND POWER PLANT  
COMMENTS ON BALANCE SHEET  
DECEMBER 31, 2006

<u>CAPITAL ASSETS</u>	Cost	\$9,113,402	
	Accumulated Depreciation	<u>5,270,745</u>	<u>\$3,842,657</u>

Details of the utility plant are shown in the preceding schedule.

PLANT ACQUISITION COSTS \$ 25,672

The cost of acquiring the Common Transmission System is being amortized over the remaining useful life of the transmission system.

NOTES RECEIVABLE – NON-CURRENT PORTION \$ 570,491

This balance consists of the non-current portion of a note receivable from the city of Marathon and the Laurens Industrial Foundation, Inc. See Note 6 for details.

COMMON TRANSMISSION SYSTEM - CAPITAL IMPROVEMENT FUND \$ 168,960

This account is currently used to record funds deposited with NIMECA to be used for future construction and/or maintenance of the common transmission system.

INVESTMENTS \$ 300,000

This balance consists of the following:

<u>Description</u>	<u>Date</u>	<u>Due</u>	<u>Interest Rate</u>	<u>Cost and Book Value</u>	<u>Maturity Value</u>
Laurens State Bank, Laurens, Iowa					
Certificates of deposit	8-19-06	2-19-08	5.55%	\$100,000	\$100,000
	9-19-06	9-19-08	5.40%	<u>200,000</u>	<u>200,000</u>
				<u>\$300,000</u>	<u>\$300,000</u>

BOND ISSUANCE COSTS \$ 19,048

Legal fees and other expenses associated with the issuance of the electric revenue notes are being amortized on the straight line method over the term of the bonds.

BOND IMPROVEMENT FUND \$ 100,000

This balance consists of the following:

	<u>Interest Rate</u>	<u>Amount</u>
Laurens State Bank, Laurens, Iowa		
Super NOW account	1.00%	<u>\$100,000</u>

BOND RESERVE FUND\$ 273,500

This balance consists of the following:

<u>Description</u>	<u>Date</u>	<u>Due</u>	<u>Interest Rate</u>	<u>Cost and Book Value</u>	<u>Maturity Value</u>
Metabank, Laurens, Iowa					
Certificate of deposit	10-26-06	5-23-07	5.30%	\$200,000	\$200,000
IPAIT Savings Account			4.79%	<u>73,500</u>	<u>73,500</u>
				<u>\$273,500</u>	<u>\$273,500</u>

BOND RETIREMENT SINKING FUND\$ 22,695

This balance consists of the following:

	<u>Interest Rate</u>	<u>Amount</u>
Laurens State Bank, Laurens, Iowa		
Super NOW account	1.00%	<u>\$22,695</u>

DEFERRED PATRONAGE REFUND RECEIVABLE\$ 35,182

The following is a summary of the deferred patronage due from NIMECA:

<u>Year</u>	<u>Amount</u>
1994	\$ 197
1995	1,757
1996	2,776
1997	2,817
1998	3,048
1999	2,032
2000	1,863
2001	1,948
2002	2,555
2004	5,715
2005	4,118
2006	<u>6,356</u>
	<u>\$35,182</u>

CASH AND CASH EQUIVALENTS\$ 69,608

This balance consists of the following:

	<u>Interest Rate</u>	<u>Amount</u>
IPAIT Savings Account	4.79%	\$29,457
Laurens State Bank - Super NOW account	1.00%	40,121
Petty cash		<u>30</u>
		<u>\$69,608</u>

TEMPORARY CASH INVESTMENTS

\$ 900,000

This balance consists of the following:

<u>Description</u>	<u>Date</u>	<u>Due</u>	<u>Interest Rate</u>	<u>Cost and Book Value</u>	<u>Maturity Value</u>
Laurens State Bank, Laurens, Iowa					
Certificates of deposit	8-06-05	8-16-07	4.25%	\$200,000	\$200,000
	2-17-06	2-17-07	4.60%	100,000	100,000
	6-14-06	6-14-07	5.30%	200,000	200,000
	6-14-06	3-14-07	5.25%	200,000	200,000
	7-14-06	4-14-07	5.40%	<u>200,000</u>	<u>200,000</u>
				<u>\$900,000</u>	<u>\$900,000</u>

ACCOUNTS RECEIVABLE

\$ 285,803

This balance consists of the following:

Accounts receivable - merchandise	\$ 3,770
Accounts receivable - energy:	
November 15, 2005 - December 15, 2005 and past due	206,556
December 15, 2005 - December 31, 2006	72,217
Resale - Marathon	<u>8,260</u>
	290,803
Less: Reserve for uncollectible accounts	<u>5,000</u>
	<u>\$285,803</u>

NOTES RECEIVABLE - CURRENT PORTION

\$ 6,745

This balance consists of the current portion of a note receivable from the city of Marathon. See Note 6 for details.

JOINT USE CONTRACT RECEIVABLE

\$ 165,000

This balance consists of the amount due from Laurens Municipal Broadband Communications Utility for rent of the distribution system.

INVENTORIES

\$ 137,902

This inventory of material and supplies is based on a physical count taken as of December 31, 2006, and consists of the following:

Material and supplies - Laurens	\$ 71,229
Generating supplies - Laurens	7,768
Share of coal, oil, and SO2 allowances - Neal 4	<u>58,905</u>
	<u>\$137,902</u>

ACCRUED INTEREST RECEIVABLE

\$ 46,466

This balance represents interest earned but not received on investments at December 31, 2006.

PREPAID EXPENSES\$ 26,796

This balance consists of the following:

Prepaid insurance	\$ 4,286
Prepaid operations for Neal 4 generating plant	<u>22,510</u>
	<u>\$26,796</u>

The following is a summary of the local insurance coverage:

<u>Kind</u>	<u>Coverage</u>	<u>Amount</u>
Comprehensive general liability	General Aggregate	\$2,000,000
	Each Occurrence	\$1,000,000
	Fire Damage	\$100,000
	Medical Expense	\$5,000
Employee Benefit		\$100,000
Automobile	Liability	\$1,000,000
	Uninsured motorist	\$500,000
	Underinsured motorist	\$500,000
	Medical payments	\$5,000
	Comprehensive	Actual cash value
	Collision	Actual cash value
	(94 Chevrolet Pickup, 91 Chevrolet Pickup)	Less \$100 deductible
	(67 Ford Truck, 73 Chevrolet Truck)	Less \$1,000 deductible
Blanket Position Bond	Employee dishonesty	\$150,000 each
Fire and extended coverage	Buildings & contents - Generating	\$1,300,815
	Fuel Oil Tanks & Contents	\$28,059
	East and West substations and contents, switchgear and transformers	\$2,501,044
	Warehouse and contents	\$121,448
	Garage and contents	\$150,683
	Cable television tower	\$162,955
	Headend building and contents	\$617,587
	Satellite dishes	\$46,736
	Power supplies, nodes, amplifiers	\$259,018
Worker's Compensation		\$500,000
Umbrella Liability		\$2,000,000
		\$10,000 retained
Errors and Omissions		\$1,000,000
		\$2,000 deductible
Inland Marine		
(\$250 deductible)	'70 John Deere Tractor	\$1,400
	Electronic Data Processing Equipment	\$7,297
	Electronic Data Processing Data & Media	\$25,300

This schedule is presented for information purposes only and no opinion is expressed as to the adequacy of coverage.

ELECTRIC REVENUE BONDS\$ 1,424,027

In July 1999 the Utility issued electric revenue bonds to finance the construction of a communications system. The details are as follows:

Total bond proceeds	\$2,855,000
Less: Unamortized discount	(10,973)
Current maturities	(195,000)
Previous payments	<u>(1,225,000)</u>
Total long-term debt	<u>\$1,424,027</u>

DUE TO COMMUNICATIONS UTILITY\$ 269,034

This balance consists of amounts borrowed from the communications utility.

ACCOUNTS PAYABLE\$ 162,990

This balance consists of the following:

Western Area Power Administration -	
December 2006 power bill	\$ 25,529
NIMECA - December 2006 power bill	49,575
Neal 4 Coal Purchase	16,421
Alliant Energy - capacity assignment costs	8,746
Stellar Energy Services, Inc. - maintenance	2,923
Crescent Electric Supply - jacketed cable	36,900
Mid American Energy - capacity assignment costs	16,634
Chapman Metering - meter maintenance	5,420
Various, each less than \$1,000	842
	<u>\$ 162,990</u>

CUSTOMER DEPOSITS\$ 19,774

Deposits are required of all new customers. These are refunded after one year of paying their bills when due.

OTHER CURRENT AND ACCRUED LIABILITIES\$ 60,611

This balance consists of the following items:

Accrued property taxes payable	\$ 32,000
Accrued vacations, payroll, and benefits	15,437
Payroll taxes withheld and accrued	1,890
Sales excise and use tax payable	4,839
Accrued interest payable	6,445
	<u>\$ 60,611</u>

NET ASSETS\$4,865,089

Following is a summary of the changes in this account during 2006:

Balance, January 2006	\$5,109,182
Change in net assets	(15,592)
Residual equity transfer to city - funding	(201,500)
Residual equity transfer to city - donation	<u>(27,001)</u>
Balance, December 31, 2006	<u>\$4,865,089</u>

HUNZELMAN, PUTZIER & CO., PLC  
CERTIFIED PUBLIC ACCOUNTANTS

WESLEY E. STILLE, C.P.A.  
JEFFORY B. STARK, C.P.A.  
KEITH C. GERMANN, C.P.A.  
RICHARD R. MOORE, C.P.A.  
KENNETH A. PUTZIER, C.P.A. (RETIRED)  
W.J. HUNZELMAN, C.P.A. 1921-1997

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees  
Laurens Municipal Light and Power Plant  
Laurens, Iowa

We have audited the financial statements of Laurens Municipal Light and Power Plant, as of and for the year ended December 31, 2006, and have issued our report thereon dated April 26, 2007. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Utility's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Utility's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Utility's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Utility's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of the Utility's financial statements that is more than inconsequential will not be prevented or detected by the Utility's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the Utility's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items I-A-06 and I-B-06 are material weaknesses.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Utility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

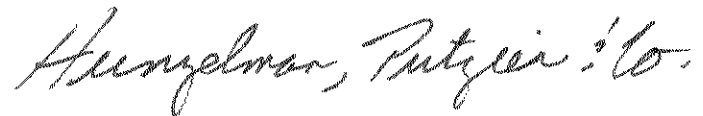
Comments involving statutory and other legal matters about the Utility's operations for the year ended December 31, 2006, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The Utility's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Utility's responses, we did not audit responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Laurens, Iowa and other parties to whom Laurens Municipal Broadband Communications Utility may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Utility during the course of our audit.

Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



April 26, 2007

LAURENS MUNICIPAL LIGHT AND POWER PLANT

SCHEDULE OF FINDINGS

YEAR ENDED DECEMBER 31, 2006

Part I: Findings Related to the Financial Statements:

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES:

I-A-06    Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that bank deposits, opening mail, recording receipts and disbursements, checks and payroll preparation, and bank reconciliations are all handled by two individuals.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the Utility should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - The Board of Trustees along with the General Manager will review the financial statements and internal control procedures, in detail, every month. The duties of opening mail, bank deposits, recording receipts and disbursements, bank reconciliations, and payroll preparation will be rotated among office staff and monitored daily by the General Manager. Two (2) signatures on all check disbursements will be required.

Conclusion - Response accepted.

I-B-06    Electronic Data Processing Systems - During our review of internal control, the existing control activities in the Utility's computer-based systems were evaluated in order to determine that activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The following weaknesses in the Utility's computer-based systems were noted:

The Utility does not have written policies for:

- password privacy and confidentiality,
- requiring password changes because software does not require the user to change logins/ passwords periodically,
- ensuring that only software licensed to the Utility is installed on computers,
- requiring user profiles to help limit access to programs to those who have a legitimate need,

Also, the Utility does not have a written disaster recovery plan.

Recommendation - The Utility should develop written policies addressing the above items in order to improve the Utility's control over computer based systems and a written disaster recovery plan should be developed.

LAURENS MUNICIPAL LIGHT AND POWER PLANT

SCHEDULE OF FINDINGS

YEAR ENDED DECEMBER 31, 2006

Part I: Findings Related to the Financial Statements: (Continued)

SIGNIFICANT DEFICIENCIES: (Continued)

I-B-06 Electronic Data Processing Systems - (Continued)

Response - The Utility will work to develop the necessary written policies addressing disaster recovery, password privacy, confidentiality, and personal use of computer equipment and software.

Conclusion - Response accepted.

Part II: Other Findings Related to Statutory Reporting:

II-A-06 Budget - Utility expenses during the year ended December 31, 2006 did not exceed the amounts budgeted.

II-B-06 Questionable Expenditures - We noted no expenditures which may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-06 Travel Expense - No expenditures of Utility money for travel expenses of spouses of Utility officials or employees were noted.

II-D-06 Business Transactions - We noted no business transactions between the Utility and Utility officials or employees.

II-E-06 Bond Coverage - Surety bond coverage of Utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-06 Trustee Minutes - No transactions were found that we believe should have been approved in the Trustee minutes but were not.

II-G-06 Revenue Bonds - The Utility has established the sinking and reserve accounts required by the electric revenue bond resolution.

II-H-06 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa.